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Retirement Investors Get Another Boost from Washington

SECURE 2.0 will usher in many changes for retirement plans and IRAs over the next several years.

This information is not intended for tax, legal, investment, or retirement advice or recommendations.

Amid the 1,650-page, $1.7 trillion omnibus spending legislation passed by Congress last week and expected to be signed by President Biden were several provisions affecting work-sponsored retirement plans and, to a lesser degree, IRAs. Dubbed the SECURE 2.0 Act of 2022 after the similarly sweeping Setting Every Community Up for Retirement Enhancement Act passed in 2019, the legislation is designed to improve the current and future state of retiree income in the United States.

"This important legislation will enhance the retirement security of tens of millions of American workers — and for many of them, give them the opportunity for the first time to begin saving," said Brian Graff CEO of the American Retirement Association.

What Does the Legislation Do?

The following is a brief summary of some of the most notable initiatives. All provisions take effect in 2024 unless otherwise noted.

- **Later age for required minimum distributions (RMDs).** The 2019 SECURE Act raised the age at which retirement savers must begin taking distributions from their traditional IRAs and most work-based retirement savings plans to 72. SECURE 2.0 raises that age again to 73 beginning in 2023 and 75 in 2033.
- **Reduction in the RMD excise tax.** Current law requires those who fail to take their full RMD by the deadline to pay a tax of 50% of the amount not taken. The new law reduces that tax amount to 25% in 2023; the tax is further reduced to 10% if account holders take the full required amount and report the tax by the end of the second year after it was due and before the IRS demands payment.
- **No RMDs from Roth 401(k) accounts.** Bringing Roth 401(k)s and similar employer plans in line with Roth IRAs, the legislation eliminates the requirement for savers to take minimum distributions from their work-based plan Roth accounts.
- **Higher limits and looser restrictions on qualified charitable distributions from IRAs.** The amount currently eligible for a qualified charitable distribution from an IRA ($100,000) will be indexed for inflation. In addition, beginning in 2023, investors will be able to make a one-time charitable distribution of up to $50,000 from an IRA to a charitable remainder annuity trust, charitable remainder unitrust, or charitable gift annuity.[1]
- **Higher catch-up contributions.** The IRA catch-up contribution limit will be indexed annually for inflation, similar to work-sponsored catch-up contributions. Also, starting in 2025, people age 60 to 63 will be able to contribute an additional minimum of $10,000 for 401(k) and similar plans (and at least $5,000 extra for SIMPLE plans) each year to their work-based retirement plans. Moreover, beginning in 2024, all catch-up contributions for those making more than $145,000 will be after-tax (Roth contributions).
- **Roth matching contributions.** The new law permits employer matches to be made to Roth accounts. Currently, employer matches must go into an employee's pre-tax account. This provision takes effect immediately; however, it may take some time for employers to amend their plans to include this feature.
- **Automatic enrollment and automatic saving increases.** Beginning in 2025, the Act requires most new work-sponsored plans to automatically enroll employees with contribution levels between 3% and 10% of income, and it automatically increases their savings rates by 1% a year until they reach at least 10% (but not more than 15%) of income. Workers will be able to opt out of the programs.
- **Emergency savings accounts.** The legislation includes measures that permit employers to automatically enroll non-highly compensated workers into emergency savings accounts to set aside up to $2,500 (or a lower amount that an employer stipulates) in a Roth-type account. Savings above this limit and any employer matching contributions would go into the traditional retirement account.
- **Matching contributions for qualified student loan repayments.** Employers may help workers repaying qualified student loans simultaneously save for retirement by investing matching contributions in a retirement account in the employee's name.
- **529 rollovers to Roth IRAs.** People will be able to directly roll over up to a total of $35,000 from 529 plan accounts to Roth IRAs for the same beneficiary, provided the 529 accounts have been held for at least 15 years. Annually, the rollover amounts would be subject to Roth IRA contribution limits.[2]
- **New exceptions to the 10% early-withdrawal penalty.** Distributions from retirement savings accounts

are generally subject to ordinary income tax. Moreover, distributions prior to age 59½ also may be subject to an early-withdrawal penalty of 10%, unless an exception applies. The law provides for several new exceptions to the early-withdrawal penalty, including an emergency personal expense, terminal illness, domestic abuse, to pay long-term care insurance premiums, and to recover from a federally declared disaster. Amounts, rules, and effective dates differ for each circumstance.

- **Saver's match.** Low- and moderate-income savers currently benefit from a tax credit of up to $1,000 ($2,000 for married couples filing jointly) for saving in a retirement account. Beginning in 2027, the credit is re-designated as a match that will generally be contributed directly into an individual's retirement account. In addition, the match is allowed even if taxpayers have no income tax obligation.
- **More part-time employees can participate in retirement plans.** The SECURE Act of 2019 required employers to allow workers who clocked at least 500 hours for three consecutive years to participate in a retirement savings plan. Beginning in 2025, the new law reduces the second component of that service requirement to just two years.
- **Rules for lifetime income products in retirement plans.** The Act directs the IRS to ease rules surrounding the offering of lifetime income products within retirement plans. Moreover, the amount that plan participants can use to purchase qualified longevity annuity contracts will increase to $200,000. The current law caps that amount at 25% of the value of the retirement accounts or $145,000, whichever is less. These provisions take effect in 2023. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax.
- **Retirement savings lost and found.** The Act directs the Treasury to establish a searchable database for lost 401(k) plan accounts within two years after the date of the legislation's enactment.
- **Military spouses.** Small businesses that provide immediate enrollment and vesting to military spouses in an eligible retirement savings plan will qualify for new tax credits. This provision takes effect immediately.

These provisions represent just a sampling of the many changes that will be brought about by SECURE 2.0. We look forward to providing more details and in-depth analysis applying to both individuals and business owners in the weeks to come.

Sources: *The Wall Street Journal,* CNBC, Bloomberg, *Kiplinger, Fortune, Plan Sponsor* magazine, National Association of Plan Advisors, and the SECURE 2.0 Act of 2022

[1] Bear in mind that not all charitable organizations are able to use all possible gifts. It is prudent to check first. The type of organization you select can also affect the tax benefits you receive.

[2] As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. Investment earnings accumulate on a tax-deferred basis, and withdrawals are tax-free as long as they are used for qualified education expenses. For withdrawals not used for qualified education expenses, earnings may be subject to taxation as ordinary income and possibly a 10% tax penalty. The tax implications of a 529 savings plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors. *Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses - which contain this and other information about the investment options, underlying investments, and investment company - can be obtained by contacting your financial professional. You should read these materials carefully before investing.*

Tis the Season for Tax-Friendly Giving Strategies

With so many nonprofit organizations seeking financial support, you may want to direct your money where it can do the most good.

You may donate money to charitable organizations throughout the year, for no other reason than your heart-felt desire to support causes that you care about. But if philanthropy is important to you, keep in mind that the associated tax breaks could potentially increase your ability to give. You might consider a more strategic approach to charitable giving, possibly as part of your year-end tax planning.

You can generally deduct charitable contributions, which reduces your taxable income, only if you itemize deductions on your federal income tax return. The deduction is currently limited to 60% of your adjusted gross income (AGI) for cash contributions to public charities. Otherwise, limits of 50%, 30%, or 20% of AGI may apply, depending on the type of property you give and the type of organization to which you contribute. (Excess amounts can be carried over for up to five years.)

If you claim a charitable deduction for a contribution of cash, a check, or other monetary gift, you should maintain a record such as a cancelled check, a bank statement, or a receipt or letter from the charity showing the name of the charitable organization and the date and amount of the contribution. Donations of $250 or more must be substantiated with a contemporaneous written acknowledgment from the charity. Additional requirements apply to noncash contributions.

Here are some strategies that may help enhance your charitable impact as well as your tax savings.

Bunch or time gifts and deductions

The Tax Cuts and Jobs Act roughly doubled the standard deduction beginning in 2018 and indexed it annually for inflation through 2025 ($12,950 for single taxpayers and $25,900 for joint filers in 2022). The result was a dramatic reduction in the number of taxpayers who itemize, now only about one out of ten.[1]

If you find that the total of your itemized deductions for 2022 will be slightly below the level of the standard deduction, it could be worthwhile to combine or "bunch" 2022 and 2023 charitable contributions into one year, itemize on your 2022 tax return, and take the standard deduction on 2023 taxes.

Another option is to increase your charitable giving in years when you expect higher annual income. For example, charitable deductions could help offset the tax liability resulting from a business sale, capital gains, stock options, or a Roth IRA conversion.

Utilize a donor-advised fund

Another way to bunch contributions or generate a large charitable deduction for the current year — possibly before you know where you want the money to go — is to open a charitable account called a donor-advised fund (DAF). Donors who itemize deductions on their federal income tax returns can write off DAF contributions in the year they are made, then gift funds later to the charities they want to support. DAF contributions are irrevocable, which means the donor gives the sponsor legal control while retaining advisory privileges with respect to the distribution of funds and the investment of assets.

Donate from an IRA

If you are an IRA owner who is 70½ or older, you can give to charity without itemizing and still get a tax break through a qualified charitable distribution (QCD). A QCD must be an otherwise taxable distribution from an IRA (generally, distributions from traditional IRAs are subject to federal income tax). QCDs are excluded from income and won't affect your tax obligation. Moreover, once you reach age 72, a QCD can satisfy all or part of your required minimum distribution. To make a QCD, you would direct your IRA trustee to issue a check made out to a qualified public charity. You may contribute up to $100,000 from your IRA; if you're married, your spouse may also contribute up to $100,000 from his or her IRA.

Consider a charitable trust

With a charitable remainder trust (CRT), you can donate money, securities, property, or other assets to the trust and designate a beneficiary — even yourself — to receive the income. Upon your death (or the death of your surviving spouse or designated beneficiary), the assets in the trust go to the charity.

Although the annual trust income is usually taxable, you may qualify for an income tax deduction based on the estimated present value of the remainder interest. Once assets are in the trust, the trustee may be able to sell them and reinvest the proceeds without incurring capital gains taxes.

Assets placed in a charitable lead trust (CLT) pay income to the designated charity until the trust ends (typically, upon your death). The remaining assets would then be returned to your heirs. This strategy might help reduce estate and gift taxes on appreciated assets that go to your heirs.

Both types of trusts are irrevocable, so assets cannot be removed from the trusts once they are donated. Not all charities are able to accept all possible gifts, so it would be prudent to check with your chosen organization in advance. Trusts incur upfront costs and often have ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of experienced estate planning, legal, and tax professionals before implementing trust strategies.

Strive for effective giving

With so many nonprofit organizations seeking financial support, you may want to direct your money where it can do the most good. Here's how you can help ensure that your donations are well spent.

Give directly to the charity. Individuals who call on the phone or knock on your door are likely to be paid fundraisers, which can cut into the organization's proceeds. Even worse, they could be questionable groups posing as more reputable and well-known charities. When contacted by fundraisers, never give out personal information over the phone or in response to an email you didn't initiate. There's no rush — take time to vet the charity before you donate.

Check out the charity's track record. There are several well-known "watchdogs" — such as CharityNavigator.org, GuideStar.org, and CharityWatch.org — that rate and review nonprofits. These organizations provide information that can help you evaluate charities and make wise choices. Find out how your gift might be used by looking into the charity's mission, plans, and financial status. Charities with higher-than-normal administrative costs may not be spending enough on programs and services — or they could be in financial trouble.

Take advantage of "leverage" opportunities. A wealthy benefactor or corporation may offer to match private donations to a charity during a certain window of time, and some employers have charitable giving programs that match funds donated by employees to qualifying organizations.

DAFs have fees and expenses that donors giving directly to a charity would not face. All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

1) Internal Revenue Service, 2022

Over the past 20 years, average tuition, fees, and room and board costs have increased 46% at public colleges and 30% at private colleges over and above general inflation.

College Cost Data for 2022-2023 School Year

Every year, the College Board releases new college cost data and trends in its annual report. The figures published are average cost figures based on a survey of approximately 4,000 colleges across the country.

Over the past 20 years, the average price for tuition, fees, and room and board has increased 46% at public colleges and 30% at private colleges *over and above* increases in the Consumer Price Index, straining the budget of many families and leading to widespread student debt.

Here are cost highlights for the 2022-2023 year.[1] This year, public colleges have done a better job than private colleges at keeping tuition and fee increases under 2.3%. Note: "Total cost of attendance" includes direct billed costs for tuition, fees, and room and board, plus indirect costs for books, transportation, and personal expenses.

Public colleges: in-state students

- Tuition and fees increased 1.8% to $10,940
- Room and board increased 3.0% to $12,310
- Average total cost of attendance: $27,940

Public colleges: out-of-state students

- Tuition and fees increased 2.2% to $28,240
- Room and board increased 3.0% to $12,310 (same as in-state)
- Average total cost of attendance: $45,240

Private colleges

- Tuition and fees increased 3.5% to $39,400
- Room and board increased 3.0% to $14,030
- Average total cost of attendance: $57,570

Note: Many private colleges are at or approaching $80,000 per year in total costs.

Sticker price vs. net price

The College Board's cost figures are based on published college sticker prices. But many families don't pay the full sticker price. A net price calculator, available on every college website, can help families see beyond a college's sticker price. It can be a very useful tool for students who are currently researching and/or applying to colleges.

A net price calculator provides an estimate of how much grant aid a student might be eligible for at a particular college based on the student's financial information and academic record, giving families an estimate of what their out-of-pocket cost — or net price — will be. The results aren't a guarantee of grant aid, but they are meant to give as accurate a picture as possible.

FASFA for 2023-2024 year opened on October 1

Even though the college cost data contained here is for the 2022-2023 school year, it's already time to think about the following year. The Free Application for Federal Student Aid (FAFSA) for the 2023-2024 year opened on October 1. It's important to keep in mind that the 2023-2024 FAFSA will factor in your income information from two years prior, which it will get from your 2021 federal income tax return, but it uses current asset information.[2] Your income is the biggest factor in determining financial aid eligibility.

1) College Board, *Trends in College Pricing and Student Aid 2022*

2) U.S. Department of Education, 2022

Year-End Charitable Giving

With the holiday season upon us and the end of the year approaching, we pause to give thanks for our blessings and the people in our lives. It is also a time when charitable giving often comes to mind. The tax benefits associated with charitable giving could potentially enhance your ability to give and should be considered as part of your year-end tax planning.

GivingTuesday, a day for charitable giving, is held annually on the Tuesday after Thanksgiving. In 2022, GivingTuesday is November 29.

Tax deduction for charitable gifts

If you itemize deductions on your federal income tax return, you can generally deduct your gifts to qualified charities. This may also help increase your gift.

Example(s): *Assume you want to make a charitable gift of $1,000. One way to potentially enhance the gift is to increase it by the amount of any income taxes you save with the charitable deduction for the gift. At a 24% tax rate, you might be able to give $1,316 to charity [$1,000 ÷ (1 - 24%) = $1,316; $1,316 x 24% = $316 taxes saved]. On the other hand, at a 32% tax rate, you might be able to give $1,471 to charity [$1,000 ÷ (1 - 32%) = $1,471; $1,471 x 32% = $471 taxes saved].*

However, keep in mind that the amount of your deduction may be limited to certain percentages of your adjusted gross income (AGI). Your deduction for gifts to charity is limited to 50% (currently increased to 60% for cash contributions to public charities), 30%, or 20% of your AGI, depending on the type of property you give and the type of organization to which you contribute. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years.

Make sure to retain proper substantiation of your charitable contributions. In order to claim a charitable deduction for any contribution of cash, a check, or other monetary gift, you must maintain a record of such contributions through a bank record (such as a cancelled check, a bank or credit union statement, or a credit-card statement) or a written communication (such as a receipt or letter) from the charity showing the name of the charity, the date of the contribution, and the amount of the contribution. If you claim a charitable deduction for any contribution of $250 or more, you must substantiate the contribution with a contemporaneous written acknowledgment of the contribution from the charity. If you make any noncash contributions, there are additional requirements.

Year-end tax planning

When making charitable gifts at the end of the year, you should consider them as part of your year-end tax planning. Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect to be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so that you can take the deduction next year when the deduction results in a greater tax benefit. Or you might shift the charitable contribution, along with other deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to shift income into that year or shift deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.

A word of caution

Be sure to deal with recognized charities and be wary of charities with similar-sounding names. It is common for scam artists to impersonate charities using bogus websites, email, phone calls, social media, and in-person solicitations. Check out the charity on the IRS website, *irs.gov,* using the Tax Exempt Organization Search tool. And don't send cash; contribute by check or credit card.

Demand for the dollar tends to increase during difficult times as investors seek stability and security. The Federal Reserve's aggressive policy to combat inflation by raising interest rates has driven demand even higher.

What Does a Strong Dollar Mean for the U.S. Economy?

In late September 2022, the U.S. dollar hit a 20-year high in an index that measures its value against six major currencies: the euro, the Japanese yen, the British pound, the Canadian dollar, the Swedish krona, and the Swiss franc. At the same time, a broader inflation-adjusted index that captures a basket of 26 foreign currencies reached its highest level since 1985. Both indexes eased slightly but remained near their highs in October.[1–2]

Intuitively, it might seem that a strong dollar is good for the U.S. economy, but the effects are mixed in the context of other domestic and global pressures.

World Standard

The U.S. dollar is the world's reserve currency. About 40% of global financial transactions are executed in dollars, with or without U.S. involvement.[3] As such, foreign governments, global financial institutions, and multinational companies all hold dollars, providing a level of demand regardless of other forces.

Demand for the dollar tends to increase during difficult times as investors seek stability and security. Despite high inflation and recession predictions, the U.S. economy remains the strongest in the world.[4] Other countries are battling inflation, too, and the strong dollar is making their battles more difficult. The United States recovered more quickly from the pandemic recession, putting it in a better position to weather inflationary pressures.

The Federal Reserve's aggressive policy to combat inflation by raising interest rates has driven demand for the dollar even higher because of the appealing rates on dollar-denominated assets such as U.S. Treasury securities. Some other central banks have begun to raise rates as well — to fight inflation and offer better yields on their own securities. But the strength of the U.S. economy allows the Fed to push rates higher and faster, which is likely to maintain the dollar's advantage for some time.

Exports and Imports

The strong dollar makes imported goods cheaper and exported goods more expensive. Cheaper imports are generally good for consumers and for companies that use foreign-manufactured supplies, but they can undercut domestic sales by U.S. producers.

At the same time, the strong dollar effectively raises prices for goods that U.S. companies sell in foreign markets, making it more difficult to compete and reducing the value of foreign purchases. For example, a U.S. company that sells 10,000 euros worth of goods to a foreign buyer would receive less revenue when a euro buys fewer dollars. Some experts are concerned that the strong dollar will dampen the post-pandemic rebound in U.S. manufacturing.[5] More broadly, the ballooning trade deficit cuts into U.S. gross domestic product (GDP), which includes imports as a negative input and exports as a positive input.

Overseas Exposure

Generally, large multinational companies have the most exposure to risk from currency imbalances, and the stock market has shown signs of a shift from large companies — which have dominated the market since before the pandemic — to smaller companies that may be more nimble and less dependent on overseas sales. The S&P SmallCap 600 index has outperformed the S&P 500 index through late October; if the trend continues through the end of the year, it would be the first time since 2016 that small caps have eclipsed large caps.[6] The S&P MidCap 400 index has done even better. In the current bear market, however, better performance means lower losses; all three indexes have had double-digit losses through October 2022.[7]

Global Pain

A weak currency can be a boon for a country by making its exports more competitive. But with the world economy weakening, other countries are not reaping those benefits, while paying more on debt and imported essentials such as food and fuel that are traded in dollars. The Fed is focused on domestic concerns, but it is effectively exporting inflation while trying to control it at home, and global economic pain could ultimately spread to the U.S. economy.[8]

Slowing the Dollar

In the near term, the Fed's aggressive rate hikes may reduce domestic demand for foreign goods, reducing the trade deficit and weakening the dollar. The advance Q3 2022 GDP estimate showed the trade gap closing, but it's unclear if the trend will last.[9]

In the longer term, as inflation eases in the United States, the Fed will likely take its foot off the gas pedal and ultimately bring rates down. This would allow other central banks to catch up if they choose to do so and would make foreign currencies and securities more appealing. Lower oil prices (denominated in dollars) and/or any reduction in world tensions — such as a slowdown in the Russia-Ukraine war — might also help reduce demand for dollars.

The dynamics of these factors are complex, and it may take time for any of them to unfold. In the meantime, the strong dollar is a sign of U.S. economic strength, and it would not be wise to place too much emphasis on it for long-term investment decisions. However, this could be a great time for an overseas vacation.

U.S. Treasury securities are guaranteed by the federal government as to the timely payment of principal and interest. The principal value of Treasury securities fluctuates with market conditions. If not held to maturity, they could be worth more or less than the original amount paid.

All investments are subject to market volatility and loss of principal. Investing internationally carries additional risks such as differences in financial reporting, currency exchange risk, and economic and political risk unique to the specific country. This may result in greater share price volatility. Shares, when sold, may be worth more or less than their original cost. The value of a foreign investment, measured in U.S. dollars, could decrease because of unfavorable changes in currency exchange rates.

The S&P 500 index is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

1) MarketWatch, October 19, 2022 (U.S. Dollar index)

2) Federal Reserve, 2022 (Real Broad Dollar index)

3, 8) *The New York Times,* September 26, 2022

4, 6) *The Wall Street Journal,* October 17, 2022

5) *The Wall Street Journal,* October 9, 2022

7) S&P Dow Jones Indices, 2022

9) U.S. Bureau of Economic Analysis, 2022

Tax Planning for Income

You don't want to pay more in federal income tax than you have to. With that in mind, here are five things to consider when it comes to keeping more of your income.

1. Postpone your income to minimize your current income tax liability

By deferring (postponing) income to a later year, you may be able to minimize your current income tax liability and invest the money that you'd otherwise use to pay income taxes. And when you eventually report the income, it's possible that you'll be in a lower income tax bracket.

Certain retirement plans can help you postpone the payment of taxes on your earned income. With a traditional 401(k) plan, for example, you contribute part of your salary into the plan, paying income tax only when you later withdraw money from the plan (withdrawals before age 59½ may be subject to a 10 percent penalty tax in addition to regular income tax, unless an exception applies). This allows you to postpone tax on part of your salary and take advantage of the tax-deferred growth of any investment earnings.

There are many other ways to postpone your taxable income. For instance, you can contribute to a traditional IRA, buy permanent life insurance (the cash value part grows tax deferred), or invest in certain savings bonds. You may want to speak with a tax professional about your tax planning options.

2. Shift income to family members to lower the overall family tax burden

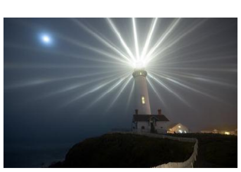
You may also be able to minimize your federal income taxes by shifting some income to family members who are in a lower tax bracket. For example, if you own stock that produces dividend income, one option might be to gift the stock to your children. After you've made the gift, the dividends will represent income to them rather than to you, potentially lowering your family's overall tax burden. Keep in mind that you can make a tax-free gift of up to $17,000 (in 2023, $16,000 in 2022, and could increase in future years) per year per recipient without incurring federal gift tax.

However, look out for the kiddie tax rules. Under these rules, for children under age 18, or children under age 19 (or full-time students under age 24) who don't earn more than one-half of their financial support, any unearned income over $2,500 (in 2023, $2,300 in 2022) is taxed at the parents' tax rates. Also, be sure to check the laws of your state before giving securities to minors.

Other ways of shifting income include hiring a family member for the family business and creating a family limited partnership. Be sure to investigate all of your options carefully before acting.

3. Deduction planning involves proper timing and control over your income

Part of minimizing federal income tax is about taking advantage of all deductions to which you are entitled, and timing them in the most beneficial manner.



As a starting point, you'll have to decide whether to itemize your deductions or take the standard deduction. Generally, you'll choose whichever method lowers your taxes the most. If you itemize, be aware that some deductions (for example, medical expenses) are allowed only to the extent the deduction exceeds some percentage of your adjusted gross income (AGI). In cases where your deductions are affected by your AGI, you might look at ways to potentially increase your allowable deductions by reducing your AGI. To lower your AGI for the year, you can defer part of your income to next year, buy investments that generate tax-exempt income, and contribute as much as you can to qualified retirement plans.

Because you can sometimes control whether a deductible expense falls into the current tax year or the next, you may have some control over the timing of your deduction. If you're in a higher federal income tax bracket this year than you expect to be in next year, you'll want to consider accelerating deductions into the current year. You can accelerate deductions by paying deductible expenses and making charitable contributions this year instead of waiting until next.

4. Investment tax planning uses timing strategies and focuses on your after-tax return

You can also minimize tax by making tax-conscious investment choices. Potential strategies can include the use of tax-exempt securities and intentionally timing the sale of capital assets for maximum tax benefit.

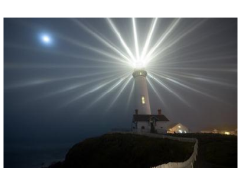
Although income is generally taxable, certain investments generate income that's exempt from tax at the federal or state level. For example, if you meet specific requirements and income limits, the interest on certain Series EE bonds (these may also be called Patriot bonds) used for education may be exempt from federal, state, and local income taxes. Also, you can exclude the interest on certain municipal bonds from your income (tax-exempt status applies to income generated from the bond; a capital gain or loss realized on the sale of a municipal bond is treated like a gain or loss from any other bond for federal tax purposes). And if you earn interest on tax-exempt bonds issued in your home state, the interest will generally be exempt from state and local tax as well. Keep in mind that although the interest on municipal bonds is generally tax exempt, certain municipal bond income may be subject to the federal alternative minimum tax. When comparing taxable and tax-exempt investment options, you'll want to focus on those choices that maximize your after-tax return.

In most cases, long-term capital gain tax rates are lower than ordinary income tax rates. That means that the amount of time you hold an asset before selling it can make a big tax difference. Since long-term capital gain rates generally apply when an asset has been held for more than a year, you may find it makes good tax-sense to hold off a little longer on selling an asset that you've held for only 11 months. Timing the sale of a capital asset (such as stock) can help in other ways as well. For example, if you expect to be in a lower income tax bracket next year, you might consider waiting until then to sell your stock. You might want to accelerate income into this year by selling assets, though, if you have capital losses this year that you can use to offset the resulting gain.

Note: *You should not decide which investment options are appropriate for you based on tax considerations alone. Nor should you decide when (or if) to sell an asset solely based on the tax consequence. A financial or tax professional can help you decide what choices are right for your specific situation.*

5. Year-end planning focuses on your marginal income tax bracket

Year-end tax planning, as you might expect, typically takes place in October, November, and December. At its most basic level, year-end tax planning generally looks at ways to time income and deductions to give you the best possible tax result. This may mean trying to postpone income to the following year (thus postponing the payment of tax on that income) and accelerate deductions into the current year. For example, assume it's December and you know that you're in a higher tax bracket this year than you will be in next year. If you're able to postpone the receipt of income until the following year, you may be able to pay less overall tax on that income. Similarly, if you have major dental work scheduled for the beginning of next year, you might consider trying to reschedule for December to take advantage of the deduction this year. The right year-end tax planning moves for you will depend on your individual circumstances.



Medicaid Planning Basics

The best time to plan for the possibility of nursing home care is when you're still healthy. By doing so, you may be able to pay for your long-term care and preserve assets for your loved ones. How? Through Medicaid planning.

Eligibility for Medicaid depends on your state's asset and income-level requirements

Medicaid is a joint federal-state program that provides medical assistance to various low-income individuals, including those who are aged (i.e., 65 or older), disabled, or blind. It is the single largest payer of nursing home bills in America and is the last resort for people who have no other way to finance their long-term care. Although Medicaid eligibility rules vary from state to state, federal minimum standards and guidelines must be observed.

In addition to you meeting your state's medical and functional criteria for nursing home care, your assets and monthly income must each fall below certain levels if you are to qualify for Medicaid. However, several assets (which may include your family home) and a certain amount of income may be exempt or not counted.

Medicaid planning can help you meet your state's requirements

To determine whether you qualify for Medicaid, your state may count only the income and assets that are legally available to you for paying bills. That's where Medicaid planning comes in. Over the years, a number of tools and strategies have arisen that might help you qualify for Medicaid sooner.

In general, Medicaid planning seeks to accomplish the following goals:

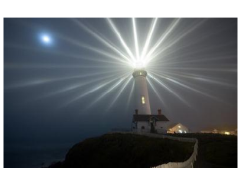
- Exchanging countable assets for exempt assets to help you meet Medicaid eligibility requirements
- Preserving assets for your loved ones
- Providing for your healthy spouse (if you're married)

Let's look at these in turn.

You may be able to exchange countable assets for exempt assets

Countable assets are those that are not exempt by state law or otherwise made inaccessible to the state for Medicaid purposes. The total value of your countable assets (together with your countable income) will determine your eligibility for Medicaid. Under federal guidelines, each state compiles a list of exempt assets. Usually, this list includes such items as the family home (regardless of value), prepaid burial plots and contracts, one automobile, and term life insurance.

Through Medicaid planning, you may be able to rearrange your finances so that countable assets are exchanged for exempt



assets or otherwise made inaccessible to the state. For example, you may be able to pay off the mortgage on your family home, make home improvements and repairs, pay off your debts, purchase a car for your healthy spouse, and prepay burial expenses.

For more information on this topic, contact an elder law attorney who is experienced with your state's Medicaid laws.

Irrevocable trusts can help you leave something for your loved ones

Why not simply liquidate all of your assets to pay for your nursing home care? After all, Medicaid will eventually kick in (in most states) once you've exhausted your personal resources. The reason is simple: You want to assist your loved ones financially.

There are many ways to potentially preserve assets for your loved ones. One way is to use an irrevocable trust. (It's irrevocable in the sense that you can't later change its terms or decide to end it.) Property placed in an irrevocable trust will be excluded from your financial picture, for Medicaid purposes. If you name a proper beneficiary, the principal that you deposit into the trust (and possibly any income generated) will be sheltered from the state and can be preserved for your heirs. Typically, though, the trust must be in place and funded for a specific period of time for this strategy to be an effective Medicaid planning tool.

For information about Medicaid planning trusts, consult an experienced attorney.

If you're married, an annuity can help you provide for your healthy spouse

Nursing homes are expensive. If you must go to one, will your spouse have enough money to live on? With a little planning, the answer is yes. Here's how Medicaid affects a married couple. A couple's assets are pooled together when the state is considering the eligibility of one spouse for Medicaid. The healthy spouse is entitled to keep a spousal resource allowance that generally amounts to one-half of the assets. This may not amount to much money over the long term.

A healthy spouse may want to use jointly owned, countable assets to buy a single premium immediate annuity to benefit himself or herself. Converting countable assets into an income stream is a plus because each spouse is entitled to keep all of his or her own income, in contrast to the pooling of assets. By purchasing an immediate annuity in this manner, the institutionalized spouse can more easily qualify for Medicaid, and the healthy spouse can enjoy a higher standard of living.

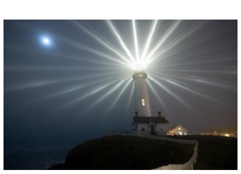
Be aware, however, that for annuities purchased on February 8, 2006 and thereafter (the date of enactment of the Deficit Reduction Act of 2005), the state must be named as the remainder beneficiary of the annuity after your spouse or a minor or disabled child.

Beware of certain Medicaid planning risks

Medicaid planning is not without certain risks and drawbacks. In particular, you should be aware of look-back periods, possible disqualification for Medicaid, and estate recoveries.

When you apply for Medicaid, the state has the right to review, or look back, at your finances (and those of your spouse) for a period of months before the date you applied for assistance. In general, a 60-month look-back period exists for transfers of countable assets for less than fair market value. Transfers of countable assets for less than fair market value made during the look-back period will usually result in a waiting period before you can start to collect Medicaid. So, for example, if you give your house to your kids the year before you enter a nursing home, you'll be ineligible for Medicaid for quite some time. (A mathematical formula is used.)

Also, you should know that Medicaid planning is more effective in some states than in others. In addition, federal law encourages states to seek reimbursement from Medicaid recipients for Medicaid payments made on their behalf. This means that your state may be able to place a lien on your property while you are alive, or seek reimbursement from your estate after you die. Make sure to consult an attorney experienced with Medicaid planning and the laws in your state before taking any action.



Understanding Your Credit Report

Your credit report contains information about your past and present credit transactions. It's used primarily by potential lenders to evaluate your creditworthiness. So if you're about to apply for credit, especially for something significant like a mortgage, you'll want to get and review a copy of your credit report.

You can see what they see: getting a copy of your credit report

Every consumer is entitled to a free credit report every 12 months from each of the three credit bureaus: Experian, TransUnion, and Equifax . Besides the annual report, you are also entitled to a free report under the following circumstances:

- A company has taken adverse action against you, such as denying you credit, insurance, or employment (you must request a copy within 60 days of the adverse action)
- You're unemployed and plan to look for a job within the next 60 days
- You're on welfare
- Your report is inaccurate because of fraud, including identity theft

Visit www.annualcreditreport.com for more information.

What's it all about?

Your credit report usually starts off with your personal information: your name, address, Social Security number, telephone number, employer, past address and past employer, and (if applicable) your spouse's name. Check this information for accuracy; if any of it is wrong, correct it with the credit bureau that issued the report.

The bulk of the information in your credit report is account information. For each creditor, you'll find the lender's name, account number, and type of account; the opening date, high balance, present balance, loan terms, and your payment history; and the current status of the account. You'll also see status indicators that provide information about your payment performance over the past 12 to 24 months. They'll show whether the account is or has been past due, and if past due, they'll show how far (e.g., 30 days, 60 days). They'll also indicate charge-offs or repossessions. Because credit bureaus collect information from courthouse and registry records, you may find notations of bankruptcies, tax liens, judgments, or even criminal proceedings in your file.

At the end of your credit report, you'll find notations on who has requested your information in the past 24 months. When you apply for credit, the lender requests your credit report--that will show up as an inquiry. Other inquiries indicate that your name has been included in a creditor's prescreen program. If so, you'll probably get a credit card offer in the mail.

You may be surprised at how many accounts show up on your report. If you find inactive accounts (e.g., a retailer you no longer do business with), you should contact the credit card company, close the account, and ask for a letter confirming that the account was closed at the customer's request.

Basing the future on the past

What all this information means in terms of your creditworthiness depends on the lender's criteria. Generally speaking, a lender feels safer assuming that you can be trusted to make timely monthly payments against your debts in the future if you have always done so in the past. A history of late payments or bad debts will hurt you. Based on your track record, a new lender is likely to turn you down for credit or extend it to you at a higher interest rate if your credit report indicates that you are a poor risk.

Too many inquiries on your credit report in a short time can also make lenders suspicious. Loan officers may assume that you're being turned down repeatedly for credit or that you're up to something--going on a shopping spree, financing a bad habit, or borrowing to pay off other debts. Either way, the lenders may not want to take a chance on you.

Your credit report may also indicate that you have good credit, but not enough of it. For instance, if you're applying for a car loan, the lender may be reviewing your credit report to determine if you're capable of handling monthly payments over a period of years. The lender sees that you've always paid your charge cards on time, but your total balances due and monthly payments have been small. Because the lender can't predict from this information whether you'll be able to handle a regular car payment, your loan is approved only on the condition that you supply an acceptable cosigner.

Correcting errors on your credit report

Under federal and some state laws, you have a right to dispute incorrect or misleading information on your credit report. Typically, you'll receive with your report either a form to complete or a telephone number to call about the information that you wish to dispute. Once the credit bureau receives your request, it generally has 30 days to complete a reinvestigation by checking any item you dispute with the party that submitted it. One of four things should then happen:

- The credit bureau reinvestigates, the party submitting the information agrees it's incorrect, and the information is corrected
- The credit bureau reinvestigates, the party submitting the information maintains it's correct, and your credit report goes unchanged
- The credit bureau doesn't reinvestigate, and so the disputed information must be removed from your report
- The credit bureau reinvestigates, but the party submitting the information doesn't respond, and so the disputed information must be removed from your report

You should be provided with a report on the reinvestigation within five days of its conclusion. If the reinvestigation resulted in a change to your credit report, you should also get an updated copy.

You have the right to add to your credit report a statement of 100 words or less that explains your side of the story with respect to any disputed but unchanged information. A summary of your statement will go out with every copy of your credit report in the future, and you can have the statement sent to anyone who has gotten your credit report in the past six months. Unfortunately, though, this may not help you much--creditors often ignore or dismiss these statements.

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